Hart Schaffner & Marx Annual Report -- 1982
America's Corporate Foundation; 1982; ProQuest Historical Annual Reports
pg. 0_1



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Hart Schaffner & Marx is America's leading diversified manufacturer and retailer of men's and women's apparel. Its primary business is to provide value, quality and fashion in its manufactured products which are distributed through select multiple retail channels and in its own 348 retail stores from coast to coast. It employs 25,000 people. The company is organized into five separate business segments:

Men's Apparel Manufacturing

Hart Schaffner & Marx, Hickey-Freeman, M. Wile, Jaymar-Ruby, Gleneagles, Fashionaire and Thorngate. These companies manufacture suits, sport coats, slacks, outercoats, rainwear, sportswear, career apparel for men and women, and military uniforms under a variety of brands, designer and personality labels.

Women's Apparel Manufacturing

Country Miss is a manufacturer of women's moderate to better quality sportswear, dresses and suits. It also operates 33 outlet stores.

Specialty Retailing

The Retail Group is composed of the company's 274 conventional specialty stores for men and women which operate nationally under 22 different operating groups.

Low-Markup Retailing

Kuppenheimer is a low-markup, popular-priced, "direct factory to consumer" manufacturer of men's suits, sport coats, and slacks. It operates 41 retail outlets.

International

Hart Schaffner & Marx has a 49 percent interest in Roberts, a quality Mexico City manufacturer of men's clothing with 22 stores throughout Mexico. The company also licenses its apparel brands and retail names in foreign countries.

Please turn page for financial highlights

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Financial Highlights

Years Ended November 30	1982	1981	Increase
Operating Results			
Net sales	$863,231,000	$815,560,000	+ 6%
Net earnings	$31,870,000	$27,410,000	+ 16%
Shareholder Financial Data			
Earnings per share	$3.77	$3.16	+ 19%
Cash dividends per common share	$1.21	$1.09	+ 11%
Equity per share	$30.28	$28.34	+ 7%
Average number of common shares and common share equivalents	8,454,000	8,670,000	
Number of shareholders	9,300	9,200	

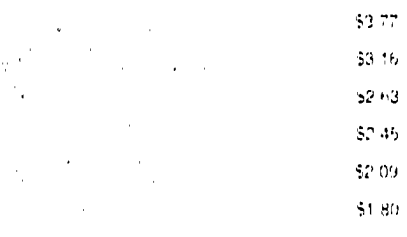
Net Sales



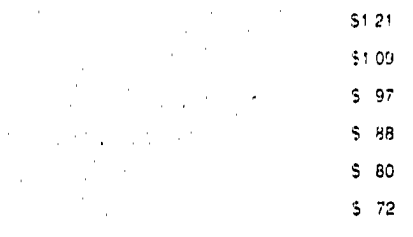
Net Earnings



Earnings Per Share



Dividends Per Share



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To Our Shareholders:

Hart Schaffner & Marx achieved record sales and earnings in 1982 for the fifth consecutive year. Sales and earnings have improved in each of the past seven years. Sales climbed 5.8 percent to $863 million from $816 million in 1981. Earnings increased 16.3 percent to $31.9 million from $27.4 million. Earnings per share increased 19.3 percent to $3.77 for 1982, including a first-quarter gain of 20 cents on the sale of our old headquarters property, from $3.16 in 1981. Cash dividends per common share were increased 11 percent in April 1982 from 28 cents to 31 cents quarterly, or $1.24 per share on an annual basis. This was the sixth increase in six years. Return on shareholders' equity, the performance measure we consider most important, increased to 13 percent from 11.6 percent in 1981.

Several very important events have taken place in your Company in recent months. At its January 1983 meeting, the board of directors voted to recommend a reorganization plan to shareholders establishing a Delaware holding company with HARTMARX Corporation as the new corporate name. Under the recommended plan, three shares of HARTMARX would be exchanged for two shares of Hart Schaffner & Marx, a New York corporation—essentially, a 3-for-2 split or 50 percent stock dividend. Hart Schaffner & Marx would continue, as a wholly-owned subsidiary of HARTMARX, and as the prestigious label on the best-known brand of men's tailored clothing.

The directors intend to increase the dividend on the HARTMARX shares after the 3-for-2 exchange to 23½ cents per share quarterly or 94 cents annually. The 23½ cents per share on the split shares is equivalent to 35¼ cents on the present Hart Schaffner & Marx shares, or $1.41 annually, 14 percent higher than the current rate of $1.24. Because of procedural requirements, the May 1983 dividend will be paid to stockholders of record April 13, 1983, the date of the annual meeting, at the 35¼ cent rate on the present Hart Schaffner & Marx shares. Dividend increases are among our important financial objectives.

On December 1, 1982, your Company acquired Kuppenheimer Manufacturing Company, Inc., a manufacturer of popular-priced men's tailored clothing with 41 low-markup "direct factory to consumer" outlets. Kuppenheimer's volume in the year ended November 30, 1982 was $57 million.

In June 1982, your Company purchased 755,764 shares of its stock from American Financial Corporation. These shares plus an option on another 100,000 shares were 9.9 percent of our outstanding stock, and your directors considered it to be in the best interest of our other shareholders and employees to acquire these shares. The purchase price was $20.5 million or $27.15 per share.

On December 1, 1982, your Company issued $44 million of convertible debentures due in 2008. These debentures bear 8.5 percent interest and are convertible into one million shares of Hart Schaffner & Marx common stock at $44 per share. Treasury shares, including the shares purchased from American Financial Corporation, are available for the conversion of these debentures into our common stock.

The proceeds from the sale of the debentures were used to purchase Kuppenheimer and pay debts; reflecting these transactions and the June share purchase on a pro forma basis, including interest expense, would have improved fiscal 1982 earnings to $33.1 million or $4.11 per share.

The following is an overview of our operating performance:

Men's Apparel Manufacturing

The Men's Apparel Group turned in an exceptional performance in 1982, with increases in sales, earnings and return on net assets in all its divisions. Our men's manufacturing divisions have shown consistent growth over the last five years, with record sales and earnings. This growth has been achieved through the development of new product lines and increasing our market share for established brands. Your Company's strong leadership position in men's tailored clothing should enable this favorable trend to continue.

Women's Apparel Manufacturing

Your Company acquired Country Miss, its first women's manufacturing company, in January 1981. In its fiscal year prior to acquisition, Country Miss reported sales of $41 million and in fiscal 1982, its sales exceeded $70 million and earnings were exceptional. Country Miss sells to thousands of specialty and department stores throughout the country. It also operates 33 outlet stores. We expect Country Miss sales to reach $100 million in two more years.

Specialty Retailing

The 243 men's specialty stores (almost 60 percent of which operate women's departments) and 31 women's specialty stores comprise the nation's leading quality apparel retail group. The profit level of the men's stores was slightly below 1981 on a small increase in sales. The women's stores experienced a decrease in sales, as well as a substantial reduction in profitability. As the economy improves, and as the restructuring of stores continues, this division is expected to achieve real growth and more satisfactory earnings.

Specialty stores continue to be the dominant distributor of quality men's tailored clothing. Almost $70 million in merchandise from our men's manufacturing divisions was shipped to our specialty stores, representing about two-thirds of all the tailored clothing they sold in 1982. Thus, these stores are very important customers as well as a nationwide showcase for our products.

Low-Markup Retailing

Kuppenheimer suits retail for $100 to $150, placing the company in the large popular-price suit market under $200. Eighty percent of the 30 million suits sold in the U.S. are at $200 and under. Low-markup, no-frills retailing is a fast-growing industry and we expect to open about 100 of these stores in the next three to four years. Kuppenheimer was owned by Sam Forman, who is continuing as its president and chief executive officer under a long-term employment contract.

International

The Company's 49 percent share of Robert's earnings was $1.9 million in 1982, compared with $2.0 million in 1981. Domestic and international licensing income continues to grow and reached $2.18 million in 1982.

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Strategic and Financial Objectives

Your Company has improved its return on shareholders' equity every year since 1975 and attained 13 percent in 1982. Our objective is to achieve a minimum of 15 percent return on net assets in each operating division and to exceed our overall goal of 15 percent return on equity by 1985.

The Company plans to expand its leadership position and market share in men's apparel manufacturing and retailing and to continue its diversification program in related areas where present management expertise can be utilized and earnings opportunity can increase our return on shareholders' equity.

The Company is continuing to strengthen its management resources. This should improve our performance and enhance our ability to achieve our objective of real growth of at least 5 percent annually over and above the inflation rate. In men's apparel, the annual price increase was approximately 5 percent or less during each of the last five years. Manufacturing sales increased 9 percent in 1982 and exceeded our goal, but retail sales increased only 3.2 percent. The retail climate in 1982 was difficult and the length and severity of the recession also affected business and professional men and women, who are our major customers.

The Company is in excellent financial condition. Despite three major acquisitions for cash since 1979, and including the recent $44 million convertible debenture issue, the ratio of total debt to total capitalization is only 31 percent, after reflecting the December payment of all $35 million bank borrowings and $14 million pre-payment of subordinated notes in February 1983. Your Company has the financial ability to fund its internal growth as well as to make additional acquisitions as good opportunities become available.

Executive Promotions

A number of changes have been made which further strengthen our top management group. E. O. Hand, president of the Men's Apparel Group, was named its chief executive officer. Jerome Dorf, corporate vice president and controller, was elected senior vice president. Glenn Morgan was named controller. Four new corporate level positions were created: Guy Gunzberg is vice president of information systems, Frank Brenner is vice president of marketing services, Alan Minoff, vice president of corporate strategy and development, and Carey Stein is associate general counsel. Naresh Jain was appointed vice president of manufacturing for the Men's Apparel Group. Dave Kelly was elected president and chief executive officer of Gleneagles.

Outlook for 1983

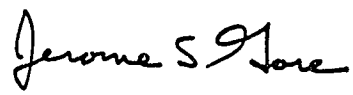
There is a strong consensus that 1983 will be a year of recovery from the severe recession. Sales in our retail stores and outlets for December 1982 and January 1983, the first two months of fiscal 1983, increased 10 percent. If Kuppenheimer sales were included in our previous year, the increase would have been 7 percent. It appears that there is now an upward trend in consumer spending. The sluggish economic climate this past year dampened retailers' enthusiasm toward placing orders for 1983. Spring 1983 advance unit orders in the men's manufacturing divisions were slightly below last year's level, but with modest price increases, should be very close to last year's dollar figures. Fall 1983 selling is in progress and there may be a small reduction in advance orders.

We anticipate that 1983 will be another good year for your Company, particularly due to a planned excellent performance by Country Miss whose Spring 1983 advance orders are well ahead of last year, and because of the contribution by Kuppenheimer which is enjoying rapid and profitable growth. Kuppenheimer's sales in 1983 are expected to surpass $70 million.

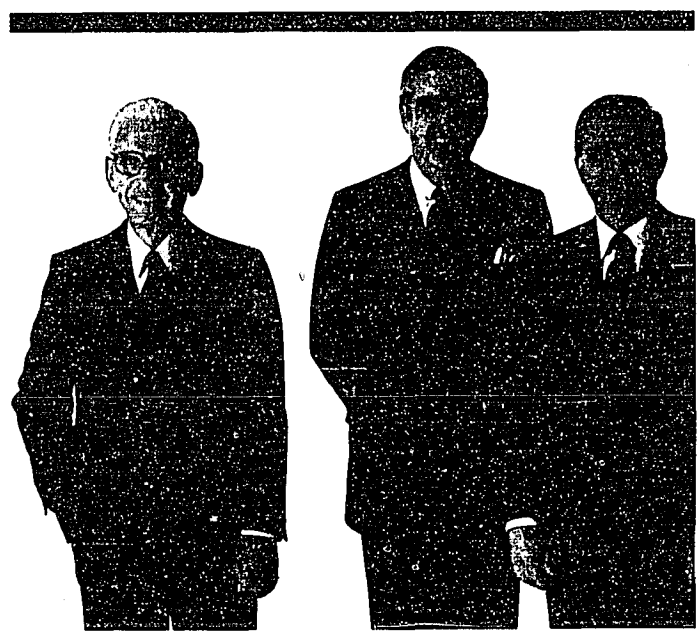
Our long-term prospects continue to look favorable. We have seasoned professional management with the experience to manage and control our business effectively. We are committed to achieving real growth through the process of strategic planning and decision making to take full advantage of the many opportunities ahead. We also enjoy an excellent relationship with thousands of fine independent specialty and department stores which sell our products and to whom we express our appreciation.

I want to extend my special thanks to Richard P. Hamilton, president and chief operating officer, and to John R. Meinert, vice chairman and chief financial and administrative officer, for their cooperation, dedication and contributions in helping to guide the Company through the major decisions and events that took place during the year. The directors join us in expressing our appreciation to our 25,000 employees throughout the country who are contributing so much to our success.

February 22, 1983



Chairman and Chief Executive Officer



Jerome S. Gore *Richard P. Hamilton* *John R. Meinert*

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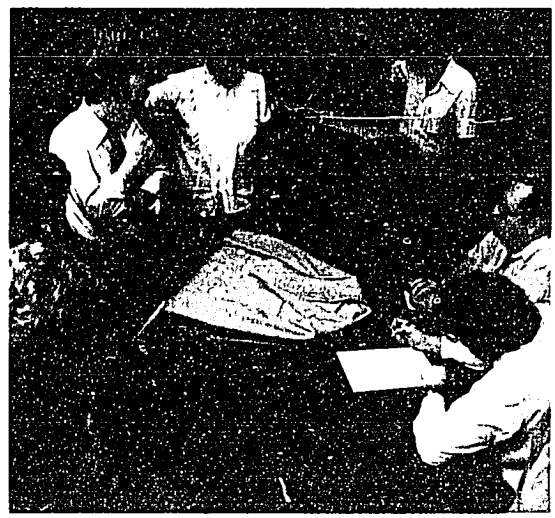
Men's Apparel Manufacturing Group Twenty-six of America's leading brand, designer and personality names are marketed by the divisions of the Men's Apparel Group, positioning your company as a preeminent source of quality apparel in the industry.

Important steps were taken in 1982 to assure this leadership position in important price ranges and fashion viewpoints. Established brands like Hart Schaffner & Marx and Sansabelt continue to increase their distribution, while new product launches take advantage of specific marketing opportunities.

The Racquet clothing line, a contemporary natural shoulder collection, was introduced in 1982 by the M. Wile division to appeal to the 18-34 year old clothing customer. Racquet sports stars will be featured in the intensive advertising campaign that will have special appeal to the younger customer.

The Hart Schaffner & Marx brand will launch a major television effort in 1983 which features Jack Nicklaus as its spokesman.

Hickey-Freeman's new International Division introduced the Pierre Cardin Couture and Chester Barrie collections designed to appeal to the upscale fashion-oriented customer.



Manufacturing employees and management discuss common concerns to improve product quality at one of the frequently scheduled Labor-Management Committee meetings in the Buffalo, N.Y. M. Wile facilities.

In 1983, one of Italy's finest fabric weavers and Hickey-Freeman will work together to introduce the Loro Piana collection, representing a unique new luxury fashion viewpoint.

The launch of the Nino Cerruti Ligne Couture collection was well received by the nation's prominent retailers. In the more modestly priced $225-$300 price range, the Christian Dior Monsieur line continued its dramatic expansion.

The advance fashion expression of the Society Brand line increased its following, as did the famous Cesarani collection by Jaymar-Ruby. Sales of the U.S. produced Austin Reed of Regent Street collection benefited greatly from the trend toward traditional clothing. Graham & Gunn Ltd. projects this look in the upscale $350-$400 price range, while Allyn St. George focuses on the budget-conscious customer.

Gleneagles continues substantial growth with its own as well as the Hart Schaffner & Marx and Christian Dior brands of all-weather coats.

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Christian Dior Sportswear also provided important sales increases.

The quality features inherent in men's tailored clothing are being translated into a select group of women's apparel marketed under the Austin Reed of Regent Street, Chester Barrie and Hickey-Freeman brand names. They are featured in the country's most prestigious stores.

Acceptance of career apparel products from Fashionaire and Thorngate Uniforms is at record levels.

The 1982 appointment of E.O. Hand, formerly president of the Hart Schaffner & Marx Clothes Division, as president and chief executive officer of the Men's Apparel Group, greatly strengthened this operation which is responsible for setting the marketing objectives of the men's apparel divisions and which helps them achieve their goals with new product and productivity programs.

Hart Schaffner & Marx continues to be in the forefront of developing technology that enables its manufacturing plants to achieve greater productivity while at the same time upgrading product quality. The use of computers and microprocessors in the actual production process continues to expand. Major projects initiated in 1982 included a sophisticated conveyor process installed at M. Wile which enables inspectors to substantially upgrade the quality of the finished apparel.

Jaymar-Ruby installed highly automated fabric spreaders and computer-controlled cutting units which greatly facilitate production and improve productivity and quality.

The thousands of specialty and department stores that feature our brands receive the benefit of extensive national advertising as well as retail support services that range from promotional ideas to store management seminars.



Country Miss achieves greater productivity and quality control as a result of this computer application to pattern grading. Accurate pattern size scaling and maximum fabric utilization results from this operation.

Women's Apparel Manufacturing Country Miss, creator and producer of a wide range of women's apparel, reached a record $70 million in sales in 1982. The company is a leading branded resource for major specialty and department stores. It markets dresses under the Country Miss label, sportswear with the Country Suburbans and Weathervane labels, and suits featuring the well known Handmacher brand. The merchandise is produced in four U.S. manufacturing plants. To meet its projection for future growth, Country Miss expanded its administration and distribution center in Easton, Pennsylvania in 1982, from 160,000 to 220,000 sq. ft.

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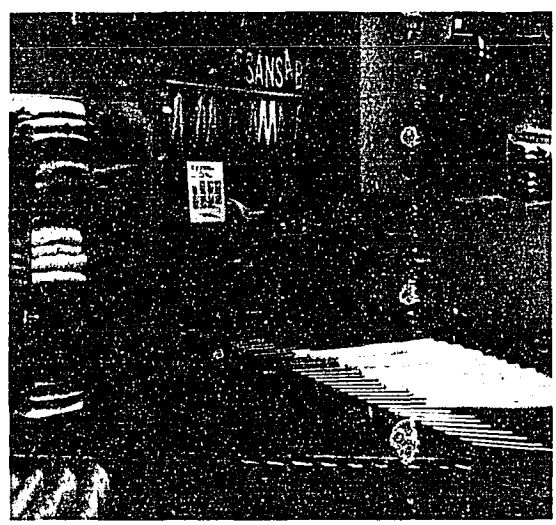
Specialty Retailing The 243 quality men's specialty stores in 65 important markets represent the largest group of such stores in the U.S. catering to the needs of the middle and upper income clothing customers. These stores also carry furnishings, accessories and sportswear with a special appeal to these customers. Over half of these stores also feature a well-edited presentation of women's apparel.

The strength of the specialty store group is based on the fine brands that they offer, the excellence of the specially trained sales and tailoring staff and their ability to cater to the individual customer needs in the market areas they serve.

The broad appeal men's specialty stores are represented by such well-known names as Wallachs in New York, New England and Florida; Jas. K. Wilson in Dallas-Ft. Worth; Baskin in Chicago; Silverwoods in Los Angeles and Las Vegas; Hastings in San Francisco.

F.R. Tripler in New York and Capper & Capper in Chicago are part of our very prestigious, more narrowly focused, group of men's specialty stores with a very upscale customer base.

A complete listing of all the retail stores and locations is to be found on page 15.



Interior of experimental Sansabelt "concept" store opened in a suburban Chicago shopping mall in 1982. Initial results indicate expansion of this idea in 1983.

About two-thirds of the clothing sold in these stores is produced by our own manufacturing divisions.

After careful market studies, 8 new specialty retail stores were opened in 1982, including a newly acquired Polo Shop. These new stores are in such important shopping areas as the Beverly Center, Los Angeles; Stamford Town Center, Connecticut and Fiesta Mall, Phoenix.

Major emphasis was placed on updating existing productive stores. Renovations totaling $3.5 million were completed at 8 key locations. This important remodeling program will be continued in 1983 with an identical allocation. Shifts in the demographic profile of certain trading areas resulted in the closing of 11 stores in 1982. The company that operated the J.P. Allen stores in Atlanta was sold.

Merger programs to achieve greater operating economies and marketing advantages are being continued. The retail division now operates 22 store groups, down from 44 in 1980. In 1983, mergers will

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include the consolidation of 6 Miami and 4 Jacksonville, Florida stores into the Atlanta regional center and the merging of 7 Phoenix stores into the Los Angeles operation as well as the merger of the Jackson, Mississippi stores into the Dallas operation. Further such moves are now being planned to take place in 1984.

Other important 1982 efforts included major market research projects to monitor customer needs and how we can better respond to them. The installation was begun on the first phase of a sophisticated regional and central management information system. Utilizing the very latest in computer technology to handle many local functions more quickly and economically, it will enable us to improve customer service with quicker response to their merchandise requirements.

The women's quality specialty store group is made up of 31 stores. 28 of these operate under the Chas. A. Stevens name in Illinois and Indiana. Three de Jong's stores are located in Evansville, Indiana. New management was installed in the Chas. A. Stevens store group.

Continued consumer demand for quality merchandise, presented within the ambience of a service-oriented specialty store, assures the future growth of this important area of retailing.



Colorful sportswear presentation in the recently remodeled Baskin Old Orchard Shopping center store in suburban Chicago. Eight major renovations of productive specialty stores took place in 1982.

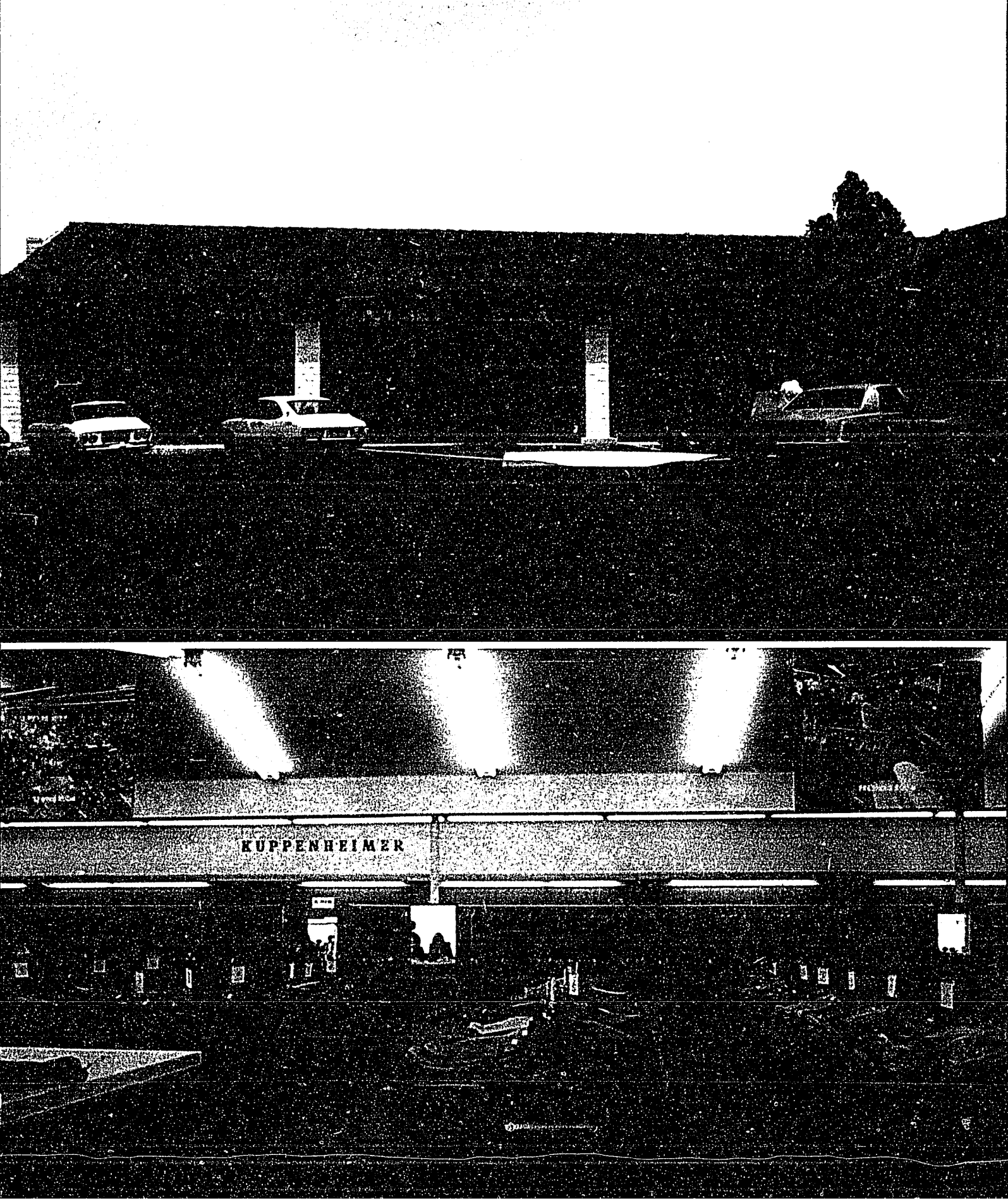
Low-Markup Retailing

Your company recently gained immediate access to the rapidly growing low-markup retail business by acquiring the 41 Kuppenheimer factory outlet stores, adding a whole new dimension and a large new market not served by its other apparel lines or retail stores.

Operating in 20 states with units varying from 4,000 to 8,500 sq. feet in size, Kuppenheimer produces in its own factories all the men's suits, sportcoats and slacks sold in its stores. The relatively low cost of building such stores enables us to expand this concept rapidly to meet the needs of this growing customer base. It is expected that by 1985 the volume of the Kuppenheimer operation will be over $100 million, or almost double last year's sales of $57 million.

Country Miss now operates 33 low-markup outlet stores featuring women's sportswear and dresses. These stores are located in areas not served by its wholesale accounts. The rapid growth of this price-sensitive

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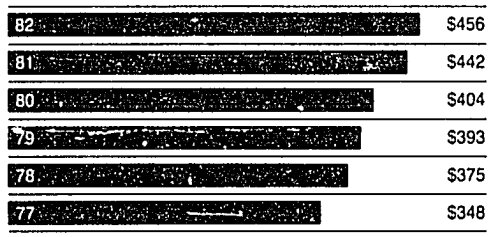


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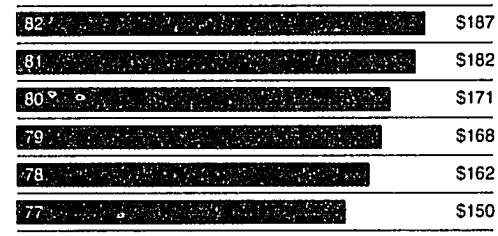
customer segment aided in the considerable sales increase of these units. Eight new stores were opened in 1982 and one was closed. A number of new stores are planned for 1983.

The 348 retail stores which Hart Schaffner & Marx operates from coast to coast are targeted to cater to a wide range of customer segments. They feature men's and women's apparel at all major price points and include the most prestigious specialty store names in the country as well as low-markup outlets with mass market appeal. This strong representation in these various forms of retailing in virtually every major U.S. market area enables us to achieve maximum flexibility in responding to future expansion opportunities and assuring continued growth.

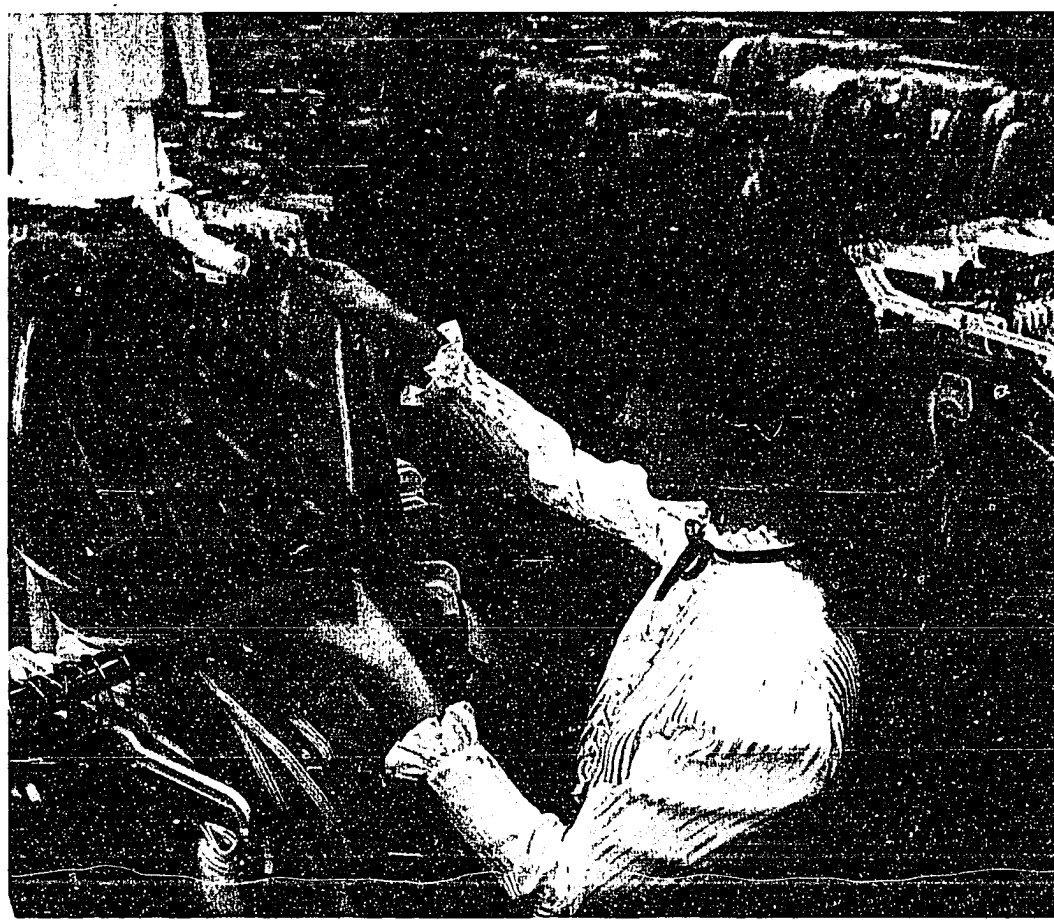
Retail Stores Sales
in millions of dollars



Sales Per Sq. Ft. of Selling Space

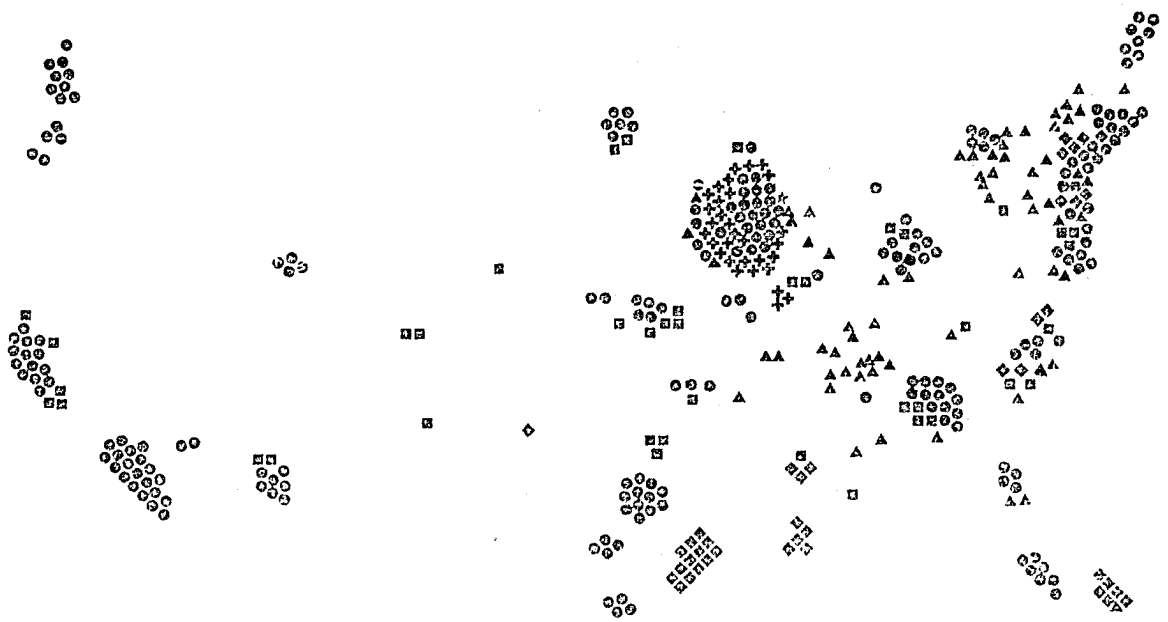


A complete selection of women's sportswear, dresses and suits as presented in the new Country Miss outlet store near Niagara Falls, New York. This store is typical of the eight new units of this type opened in 1982.



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Retail Stores and Manufacturing Facilities



Number of stores or plants indicated in ()

Men's Specialty Stores

Blackburns (1)
Amarillo Tx

Field Bros (8)
New York
New Jersey

Heyward Mahon (2)
Greenville SC

J O Jones (2)
Charlotte NC
Raleigh NC

Leopold Price and Rolle (13)
Houston Tx

Porter-Stevens (5)
New Orleans La

Stevens (3)
Jackson Ms

Wallachs of Florida (6)
Miami Fl
Ft Lauderdale Fl
Pompano Beach Fl
Boca Raton, Fl

Women's Specialty Stores

Chas A Stevens (28)
Chicago, Il
Rockford, Il
Merrillville, In

de Jongs (3)
Evansville, In

Sansabelt Store

Chicago, Il *(1)*

Corporate Headquarters

Chicago, Il

Men's and Women's Specialty Stores

Baskin (22)
Chicago
Champaign-Urbana Il
Rockford Il
Ft Wayne In
Madison Wi

Ray Beers (2)
Topeka Ks

Capper & Capper (5)
Chicago Il
Detroit Mi

Arthur Frank (4)
Salt Lake City Ut

Frank Bros (4)
San Antonio, Tx

Hanny's (7)
Phoenix Az

Hastings (14)
San Francisco Ca
San Jose, Ca
Monterey, Ca
Oakland Ca

Jack Henry (5)
Kansas City Mo

Kleinhans (5)
Buffalo NY

Klopfenstein s (13)
Seattle, Wa
Tacoma Wa
Portland, Or
Eugene, Or
Salem, Or
Anchorage, Ak

Littler (1)
Seattle, Wa

Levy-Wolf (4)
Jacksonville, Fl

Liemandt s (6)
Minneapolis Mn
St Paul Mn

Merritt Schaefer & Brown (4)
Austin Tx

National Clothing (2)
St Louis Mo
Ft Wayne In

Polo Shop (1)
Seattle Wa

Roots (5)
Red Bank NJ
Summit NJ

Shulman's (4)
Hampton Va
Norfolk Va

Silverwoods (22)
Los Angeles Ca
Anaheim Ca
Las Vegas Nv
Palm Springs, Ca
Santa Barbara Ca

F R Tripler & Co (1)
New York, NY

Walkers (10)
Akron, Oh
Canton Oh
Columbus, Oh
Dayton, Oh

Wallachs (29)
Connecticut
Rhode Island
Massachusetts
New Hampshire
New Jersey
New York

Jas K Wilson (12)
Dallas, Tx
Fort Worth, Tx

Wolf Bros. (7)
Bradenton Fl
Ft Meyers Fl
St Petersburg Fl
Tampa Fl

Zachry (13)
Atlanta Ga
Savannah Ga
Montgomery Al
Asheville NC

Country Miss Outlet Stores

Arlington Tn
Bethlehem Pa
Bristol Va
Buffalo NY
Center Square Pa
Cinnaminson NJ
Cookeville Tn
East Norwalk Ct
Glasgow, Ky
Glens Falls NY
Goodlettsville Tn
Jacksonville Fl
Kingsport, Tn
Knoxville, Tn
Laurel Springs NJ
Line Lexington Pa
Marlton NJ
Matawan, NJ
Mount Kisco NY
Murfreesboro, Tn (2)
Myrtle Beach, SC
Nashville Tn (2)
Niagara, NY
North Hampton NH
Ocean Township, NJ
Olyphant, Pa
Orlando, Fl
Reading, Pa
Syracuse NY
Trexlertown, Pa
Utica, NY

Kuppenheimer Factory Outlets

Albuquerque N M
Annandale Va
Aurora Co
Baldwin Mo
Bridgeton Mo
Charleston SC
Charlotte NC
Columbia SC
Columbus Oh (2)
Edina Mn
Gladstone Mo
Independence Mo
Indianapolis In (2)
Jackson Ms
Jonesboro Ga
Langley Park Md
Loganville Ga
Madison, Wi
Merriam Ks
Mobile Al
New Carrollton Md
New Hope Mn
Norcross Ga
Oklahoma City Ok (2)
Omaha Nb
Phoenix, Az
Pittsburgh Pa
Pleasant Hill Ca
Rockville, Md
Sacramento Ca
San Carlos, Ca
San Lorenzo Ca
Smyrna Ga
St Louis, Mo
Sunnyvale, Ca
Tempe Az
Tulsa, Ok
Wheat Ridge, Co

Manufacturing Facilities

Hart Schaffner & Marx
Chicago Il
Cape Girardeau Mo
Chaffee Mo
Rock Island Il (2)
Rochester In
Winchester Ky
Distribution Center
Des Plaines Il

Gleneagles
Bel Air Md
Distribution Center
Baltimore, Md

Fashionaire
Marseilles Il

M Wile
Buffalo NY (2)
Dunkirk NY
Whiteville N C

Jaymar-Ruby
East Chicago In
Elizabethtown Ky
Rector, Ar
Anniston, Al
Distribution Center
Michigan City In

Hickey-Freeman
Rochester NY

Thorngate Uniforms
Norristown, Pa

Country Miss
Cookeville Tn
Bristol Va
Glasgow, Ky
Walterboro, SC
Distribution Center
Easton, Pa

Kuppenheimer
Loganville, Ga
Hialeah, Fl
Wellston, Oh
Hillsboro Oh
Distribution Center
Columbus, Oh

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Several important events affected both financial position and results of operations in 1982. In February, our old headquarters property was sold and a 20 cent per share gain was recorded. In June, 755,764 shares of our stock were purchased from American Financial Corporation at about $27 per share; the total payment was $20.5 million—$6.5 million in cash and $14 million in subordinated notes which were subsequently paid in February, 1983. We sold the company that operated the J. P. Allen stores in Atlanta and closed about a dozen other store locations pursuant to a continuing program of terminating unprofitable units. We entered into revolving credit and term loan agreements to provide $45 million in financing. Kuppenheimer Manufacturing Company, Inc. was acquired (under an agreement signed in October) on December 1, 1982, the same day we issued $44 million of 8½% Convertible Subordinated Debentures. The net proceeds of $43.3 million were used to pay $25.8 million for Kuppenheimer and its debts, and the remainder was used, combined with seasonal cash flows, to pay all $35 million bank borrowings.

With the Company's excellent cash flow, it is in a favorable position to take advantage of opportunities as the economy recovers, to continue its internal expansion and to make acquisitions. Receivables increased only $7 million or 4.8% and inventories increased only $3 million or 1.5% at November 30, 1982 vs. 1981. Fixed assets additions were about $16 million excluding property sales, while 1982 depreciation was $13.9 million. Total debt, including the $44 million Convertible Debentures but excluding the bank borrowings and subordinated notes paid since November 30, totals approximately $110 million (compared to $112 million of total debt at November 30, 1982). The $110 million is 31% of the total capitalization of $352 million.

Despite the recession, 1982 was the fifth consecutive year of record sales and earnings. Sales increased 5.8% to $863 million on top of a 21% increase in 1981 which would have been 14% if Country Miss was included in 1980. Higher margins on higher sales and lower tax rates offset by higher interest expense resulted in net earnings increasing $4.5 million, or 16%, to $31.9 million or 3.7% of sales from $27.4 million or 3.4% in 1981 and $22.5 million or 3.3% in 1980. Earnings per share increased 19% in 1982 over 1981, with fewer shares outstanding. Excluding the first quarter gain of 20 cents per share on the sale of our former headquarters building, earnings still would have been at record levels of $30.1 million or $3.57 per share.

On a pro forma basis, including Kuppenheimer, the share purchase and issuance of Debentures as if they had all occurred effective December 1, 1981, primary earnings per share for fiscal 1982 would have been $4.11 and sales would have been $920 million.

Manufacturing sales to independents increased $33 million, or 9%, to $407 million from $374 million. Country Miss manufacturing sales increased 14%. Hart Schaffner & Marx, Hickey-Freeman, Jaymar-Ruby, as well as our newer lines, Christian Dior Monsieur, Pierre Cardin slacks, Nino Cerruti tailored clothing, and Austin Reed Womenswear, all reported increases. Manufacturing pre-tax earnings increased $11.4 million compared to an increase of $15.4 million in 1981, the first year to include Country Miss. In each year, the higher earnings reflect higher sales and improved operating margins.

Retail sales increased $14 million in 1982; almost one-half was from Country Miss stores. In 1981 the increase was $38 million, one-third from Country Miss. Earnings from retailing were lower after increasing slightly in 1981. Margins were lower as sales increases did not offset the inflationary pressures on operating expenses.

Consolidated gross margins were 38.9% in 1980, 38% in 1981 and 38.3% in 1982. Operating expenses were 33.6% in 1980, 32.4% in 1981 and 32.3% in 1982. The 1981 decline in both percentages reflects the larger portion of manufacturing, which has lower percentages for gross profit and expense than retailing. This also occurred in 1982 but gross margins improved from manufacturing production efficiencies and delayed wage increases. Operating margins improved to 6.0% from 5.6% in 1981 and 5.3% in 1980.

Finance charges and other income were $12.3 million in 1982, $10 million in 1981 and $7.9 million in 1980. The increase in each year includes more finance charges on receivables and higher licensing income. Additionally, 1982 includes the pre-tax gain on the sale of the Company's old headquarters property and 1981 included a gain on purchases of our sinking fund debentures.

Our 49% share of Robert's earnings was $1.9 million in 1982, down slightly from 1981. Through August 31, foreign currency translation adjustments totaling $5.6 million were charged to equity, but effective September 1, 1982, the Mexican economy was considered highly inflationary so remeasurement adjustments have been charged to operations.

Interest expense in 1982 increased to $10.2 million, due to the notes issued on the purchase of shares from American Financial Corporation and the industrial revenue bonds issued in 1981. Although borrowings were higher in 1982, rates were lower, resulting in interest expense on bank borrowings being comparable between 1982 and 1981. The increase in 1981 reflected higher borrowings at higher rates.

The effective tax rate was 44% in 1982, 46% in 1981 and 46.7% in 1980, primarily reflecting the favorable capital gain rate on the 1982 sale of the old headquarters property and higher investment tax credits.

"Effects of Inflation" on pages 26 and 27 describes how inflation would have affected the Company's results of operation and financial position. The current value of net assets would have been approximately $322.9 million compared to book value of $242.5 million. After adjusting for inflation, depreciation would have been $21.2 million compared to $13.9 million charged to operations in 1982. This higher expense would cause an equal drop in assumed earnings when taxes are not reduced accordingly.

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Supplementary Information

Quarterly Financial and Common Share Information

Quarters	Net Sales (000's omitted)			Gross Profit (000's omitted)			Net Earnings (000's omitted)		
(Not separately audited)	1982	1981	1980	1982	1981	1980	1982	1981	1980
First	$230,057	$206,831	$184,567	$ 84,781	$ 78,318	$ 69,664	$ 10,830*	$ 8,360	$ 7,725
Second	194,417	185,133	143,311	77,898	71,683	60,075	5,890	5,145	4,500
Third	210,761	202,789	161,271	76,610	73,665	58,937	5,740	5,245	3,865
Fourth	227,996	220,807	185,736	90,882	86,590	74,301	9,410	8,360	6,435
Total	$863,231	$815,560	$674,888	$330,171	$310,256	$262,977	$ 31,870	$ 27,410	$ 22,525

Quarters	Net Earnings Per Share			Cash Dividends Per Share		
(Not separately audited)	1982	1981	1980	1982	1981	1980
First	$ 1.24*	$.97	$.90	$.28	$.25	$.22
Second	.67	.63	.53	.31	.28	.25
Third	.70	.60	.45	.31	.28	.25
Fourth	1.16	.96	.75	.31	.28	.25
Total	$ 3.77	$ 3.16	$ 2.63	$ 1.21	$ 1.09	$.97

*First quarter includes $1.765 million or $.20 per share gain on sale of property.

Selected Financial Data

In Thousands/For Years Ended November 30	1982	1981	1980	1979	1978
Net sales	$863,231	$815,560	$674,888	$630,751	$606,610
Net earnings	31,870	27,410	22,525	21,015	18,005
Net earnings per common share and equivalent	3.77	3.16	2.63	2.45	2.09
Cash dividends per share	1.21	1.09	.97	.88	.80
Average number of common shares and equivalents	8,454	8,670	8,561	8,577	8,601
In Thousands/At November 30					
Accounts receivable	$158,011	$150,807	$124,618	$109,084	$105,100
Inventories	208,105	204,953	186,061	164,445	164,356
Net properties	86,305	87,123	63,156	58,473	55,165
Total assets	480,793	464,874	402,235	350,537	338,620
Working capital	237,210	208,675	205,065	197,113	193,984
Long term debt	89,462	62,246	53,656	54,221	53,723
Shareholders' equity	242,490	245,165	226,812	212,574	199,501
Equity per share	30.28	28.34	26.50	24.87	23.30

Hart Schaffner & Marx common shares are traded on the New York and Midwest Stock Exchanges. The quarterly composite price range for the past three years was:

	Fiscal 1982				Fiscal 1981				Fiscal 1980			
	Fourth	Third	Second	First	Fourth	Third	Second	First	Fourth	Third	Second	First
High	$37¾	$24½	$25½	$23	$22⅞	$24⅛	$20⅝	$18⅜	$16	$14⅞	$12	$12⅞
Low	23	19	20⅝	18⅛	17⅛	20	17⅛	13½	13¼	11½	9¾	11⅛

Men's Suits, by Retail Price and Style (The chart below highlights the main focus of each brand)

Retail Price	Contemporary	Designer/Personality	Traditional	Forward Fashion
$500+	Hickey-Freeman—Walter Morton			Chester Barrie
$400-$500		Christian Dior Grand Luxe		Society Brand
$300-$400	Hart Schaffner & Marx	Jack Nicklaus, Nino Cerruti Ligne Couture, Pierre Cardin Couture	Graham & Gunn	
$250-$300		Christian Dior Monsieur, Pierre Cardin Boutique, Cesarani	Austin Reed of Regent Street	
$200-$275		Nino Cerruti	Racquet	
$150-$200	Jaymar Allyn St. George	Johnny Carson		
$100-$150	Kuppenheimer			

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Consolidated Statements of Earnings and Shareholders' Equity
Hart Schaffner & Marx and Subsidiary Companies

Consolidated Statement of Earnings

In Thousands/Years ended November 30	1982	1981	1980
Net sales	$863,231	$815,560	$674,888
Finance charges and other income	12,345	10,011	7,875
Interest income	1,366	1,806	3,015
Equity in earnings of non-consolidated affiliate	1,861	2,038	1,252
	878,803	829,415	687,030
Cost of goods sold	533,060	505,304	412,685
Selling, administrative and occupancy expenses	278,647	264,015	226,563
Interest	10,236	9,323	5,522
	821,943	778,642	644,770
Earnings before taxes	56,860	50,773	42,260
Taxes on earnings	24,990	23,363	19,735
Net earnings for the year	$ 31,870	$ 27,410	$ 22,525
Net earnings per common share and common share equivalent	$ 3.77	$ 3.16	$ 2.63
Average number of common shares and common share equivalents	8,454	8,670	8,561

Consolidated Statement of Shareholders' Equity

In Thousands	Par Value of Preferred Stock	Par Value of Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Shares
Balance at November 30, 1979	$ 82	$ 21,882	$ 24,085	$171,099	$ —	$ (4,574)
Net earnings for the year				22,525		
Cash dividends paid:						
Preferred shares, $2.00 per share				(164)		
Common shares, $.97 per share				(8,140)		
Stock options exercised (67,625 shares)		169	488			
Acquisition of 58,805 treasury shares (net of disposition of 995 shares)						(640)
Balance at November 30, 1980	82	22,051	24,573	185,320	—	(5,214)
Net earnings for the year				27,410		
Cash dividends paid:						
Preferred shares, $2.00 per share				(125)		
Common shares, $1.09 per share				(9,284)		
Stock options exercised (156,099 shares exercised less 66,946 shares exchanged)		223	517			
Conversion of 35,882 preferred shares into 64,584 common shares	(36)	162	(126)			
Disposition of 13,332 treasury shares			71			169
Foreign currency translation adjustment					(328)	
Balance at November 30, 1981	46	22,436	25,035	203,321	(328)	(5,045)
Net earnings for the year				31,870		
Cash dividends paid:						
Preferred shares, $2.00 per share				(62)		
Common shares, $1.21 per share				(10,033)		
Stock options exercised (44,304 shares issued upon exercise of 45,682 options and stock appreciation rights)		111	468			
Conversion of 29,136 preferred shares into 52,441 common shares	(29)	131	(102)			
Acquisition of 755,764 treasury shares						(20,850)
Disposition of 60,032 treasury shares			306			763
Foreign currency translation adjustment					(5,548)	
Balance at November 30, 1982	$ 17	$ 22,678	$ 25,707	$225,096	$ (5,876)	$ (25,132)

(See accompanying notes to consolidated financial statements)

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Consolidated Balance Sheet
Hart Schaffner & Marx and Subsidiary Companies

In Thousands/November 30		1982	1981
Assets			
Current Assets	Cash	$ 13,093	$ 5,970
	Short term investments, at cost which approximates market	3,850	2,190
	Accounts receivable, less allowance of $8,483,000 and $7,758,000 for doubtful accounts	158,011	150,807
	Inventories	208,105	204,953
	Prepaid expenses	2,992	1,918
	Total current assets	386,051	365,838
Investments and Other Assets		8,437	11,613
Properties	Land	1,796	2,951
	Buildings and building equipment	33,463	32,869
	Furniture, fixtures and equipment	101,968	98,174
	Leasehold improvements	62,465	60,865
		199,692	194,859
	Accumulated depreciation and amortization	(113,387)	(107,436)
	Net properties	86,305	87,423
Total Assets		$480,793	$464,874

Liabilities and Shareholders' Equity			
Current Liabilities	Notes payable to banks	$ 17,500	$ 35,000
	Current maturities of long term debt	5,377	2,445
	Accounts payable	54,619	52,261
	Accrued payrolls	24,722	23,322
	Other accrued expenses	28,966	30,523
	Taxes on earnings	3,212	4,412
	Deferred taxes on earnings	14,445	9,200
	Total current liabilities	148,841	157,163
Long Term Debt, less current maturities		89,462	62,246
Shareholders' Equity	Convertible preferred shares, $1 par value; authorized 2,500,000; issued and outstanding, Series A, 16,888 in 1982 and 46,024 in 1981	17	46
	Common shares, $2.50 par value; authorized 25,000,000; issued 9,071,010 in 1982 and 8,974,265 in 1981	22,678	22,436
	Capital surplus	25,707	25,035
	Retained earnings	225,096	203,321
	Foreign currency translation adjustment	(5,876)	(328)
		267,622	250,510
	Common shares in treasury, at cost, 1,092,472 in 1982 and 396,740 in 1981	(25,132)	(5,045)
	Shareholders' equity	242,490	245,465
Total Liabilities and Shareholders' Equity		$480,793	$464,874

(See accompanying notes to consolidated financial statements)

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Consolidated Statement of Changes in Financial Position
Hart Schaffner & Marx and Subsidiary Companies

In Thousands/Years ended November 30		1982	1981	1980
Working Capital was Provided by:	Net earnings for the year	$ 31,870	$ 27,410	$ 22,525
	Depreciation and amortization	13,959	11,875	9,673
	Equity in earnings of non-consolidated affiliate	(1,861)	(2,038)	(1,252)
	Working capital provided by operations	43,968	37,247	30,946
	Proceeds from issuance of long term debt	29,772	11,900	450
	Net proceeds from exercise of stock options	579	740	657
		74,319	49,887	32,053
Working Capital was Used for:	Property additions—net	12,841	32,041	14,656
	Payment of dividends	10,095	9,409	8,304
	Reduction of long term debt	2,556	4,130	1,015
	Increase (decrease) in investments and other assets	511	(2,132)	(514)
	Changes in treasury stock—net	19,781	(169)	640
	Properties and other assets of acquired company, net of $820,000 long term debt assumed	—	2,998	—
		45,784	46,277	24,101
	Increase in Working Capital	$ 28,535	$ 3,610	$ 7,952
Changes in Components of Working Capital:	Cash	$ 7,123	$ (914)	$ 6,477
	Short term investments	1,660	(4,810)	1,800
	Accounts receivable	7,204	26,189	15,534
	Inventories	3,152	18,892	21,616
	Prepaid expenses	1,074	(351)	550
	Notes payable to banks	17,500	(11,000)	(22,010)
	Current maturities of long term debt	(2,932)	(1,535)	(29)
	Accounts payable	(2,358)	(3,257)	(11,130)
	Accrued payrolls	(1,400)	(6,713)	(189)
	Other accrued expenses	1,557	(10,714)	(3,298)
	Taxes on earnings	1,200	(672)	(149)
	Deferred taxes on earnings	(5,245)	(1,505)	(1,220)
	Increase in Working Capital	$ 28,535	$ 3,610	$ 7,952

(See accompanying notes to consolidated financial statements)

Report of Independent Accountants

Price Waterhouse

To the Shareholders and Board of Directors of Hart Schaffner & Marx:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of shareholders' equity and of changes in financial position present fairly the financial position of Hart Schaffner & Marx and its subsidiaries at November 30, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended November 30, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Chicago, Illinois
January 17, 1983

Price Waterhouse

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Summary of Accounting Policies

The consolidated financial statements include the accounts of the Company and all subsidiaries. The Company's 49% equity in Robert's S.A. de C.V., a publicly traded corporation in Mexico, is included in "Investments and Other Assets". In accordance with Statement of Financial Accounting Standards #52, the effects of translation from the peso functional currency to the U.S. dollar reporting currency were charged directly to a separate component of shareholders' equity through August 31, 1982. However, at September 1, 1982 the Mexican economy was judged to have become highly inflationary, accordingly, foreign currency adjustments are now remeasured as if the U.S. dollar were the functional currency and are included in earnings.

Inventories are stated at the lower of cost or market. Cost is determined by the use of the last-in, first-out (LIFO) method for a substantial portion of the manufacturing and retail store inventories. For the remaining inventories, the first-in, first-out (FIFO) method is used for manufacturing and the retail method is used for retail stores.

Properties are stated at cost. Additions, major renewals and betterments are capitalized; maintenance and repairs which do not extend asset lives are charged against earnings. Profit or loss on disposition of assets is reflected in earnings and the related asset costs and accumulated depreciation are removed from the respective accounts. .

Accelerated depreciation methods are used for a significant portion of the properties and the straight line method is used for the remainder. Depreciation is computed based on useful lives of 20 to 45 years for buildings, 5 to 20 years for building equipment and 3 to 15 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the terms of the respective leases.

Intangible assets are included in "Investments and Other Assets" at cost, less amortization which is provided on a straight-line basis over their economic lives, usually 10 years or less.

Deferred taxes on earnings are provided for timing differences between financial and taxable income. Investment tax credits are recognized as a reduction of the current provision for taxes on earnings in the year the related assets are placed in service.

The Company and its subsidiaries maintain pension plans covering substantially all employees other than those covered by multi-employer plans. Pension expense charged against earnings includes current service costs and, as to plans not fully funded, amortization of prior service costs over periods ranging from ten to thirty years. Pension expense under each multi-employer plan is based upon a percentage of the employer's union payroll established by industry-wide collective bargaining agreements. Pension expenses are funded as accrued.

When stock options are exercised, common stock is credited for the par value of shares issued and capital surplus is credited with the consideration in excess of par. For stock appreciation rights, compensation expense is recognized on the aggregate difference between the market price of the Company's stock and the option price only when circumstances indicate that the right, and not the option, will be exercised.

Earnings per share are computed based on the average number of common shares and common share equivalents outstanding. Convertible preferred shares have been included as common share equivalents. When dilutive, stock options are included as share equivalents using the treasury stock method. (See Subsequent Events footnote for discussion of pro forma effects of certain transactions.)

Subsequent Events

On December 1, 1982, the Company acquired Kuppenheimer Manufacturing Company, Inc., a manufacturer of men's tailored clothing with 41 factory outlets. The Company will account for the acquisition as a purchase and accordingly will include Kuppenheimer results of operations in its financial statements beginning December 1, 1982.

Also, on December 1, 1982, the Company issued $44 million of 8½% Convertible Subordinated Debentures due January 15, 2008. From the net proceeds of $43.3 million, $25.8 million was used to acquire Kuppenheimer and $17.5 million was used for repayment of bank borrowings. The Debentures are convertible at any time prior to maturity into common shares of the Company at $44 per share, subject to adjustment in certain events. The Debentures are redeemable at the option of the Company at a premium until January 15, 1993. However, the Debentures may not be redeemed prior to January 15, 1985, unless for a period of 30 successive trading days ending within five days of the date of notice of redemption the reported closing price of the common shares on the principal trading market was at least 150% of the then effective conversion price. Sinking fund payments commencing January 15, 1993 will retire 5% annually of the Debentures outstanding on December 1, 1992, at par, and a minimum of 75% of the then outstanding Debentures prior to maturity. One million treasury shares are reserved for issuance on conversion of the Debentures.

The following table sets forth the Company's net sales, net earnings and net earnings per common share and equivalent for the year ended November 30, 1982 and unaudited pro forma results for that period assuming the following transactions had occurred on the first day of the fiscal 1982 year: (1) only the purchase of 755,764 common shares from American Financial Corporation; (2) only the Kuppenheimer acquisition; and (3) both of these transactions together with issuance of the 8½% Convertible Subordinated Debentures.

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Year Ended November 30, 1982 (000's omitted)

	Net Sales	Net Earnings	Net Earnings Per Common Share and Equivalent
As reported	$863,231	$31,870	$3.77
(1) Pro forma—purchase of common shares	863,231	30,900	3.84
(2) Pro forma—Kuppenheimer acquisition	920,000	33,700	3.98
(3) Pro forma—purchase of common shares, Kuppenheimer acquisition and issuance of Debentures	920,000	33,100	4.11

The pro forma results of the purchase of common shares reflect interest expense on the cash paid and debt incurred in this purchase, as well as the reduced number of common shares outstanding resulting from such purchase. The pro forma results of the Kuppenheimer acquisition are shown above as adding $1.8 million to the Company's net earnings; these results include Kuppenheimer's earnings, after deducting assumed interest expense on the $28.8 million consideration paid and debt assumed in connection with the acquisition and adjustments to reflect purchase accounting. The pro forma earnings of $4.11 per share reflect the adjustments described above and replacement of bank borrowings with the Debentures at lower interest rates; supplementary fully diluted earnings, reflecting one million more shares outstanding from the assumed conversion of the Debentures and elimination of interest thereon, would have been $3.86 per share.

At their meeting on January 17, 1983, the Board of Directors of the Company voted to recommend a reorganization plan to shareholders establishing a new Delaware holding company with Hartmarx Corporation as the corporate name. Under the plan, three shares of Hartmarx would be exchanged for two shares of Hart Schaffner & Marx—essentially a fifty percent stock dividend. Since the shareholders will be asked to approve the reorganization plan at the annual meeting of the Company in New York on April 13, 1983, earnings per share for fiscal 1982 have not been retroactively adjusted.

Acquisitions

On January 7, 1981, the Company acquired an 80% interest in Country Miss, Inc. for approximately $12 million in cash. The Company is obligated to purchase the minority interest as of September 30, 1985 for the net book value at that date. Under certain circumstances the Company may elect or be required earlier to purchase all or a portion of the minority interest, at net book value.

Inventories

At November 30, 1982 and 1981 inventories were as follows (000's omitted):

	1982	1981
Raw materials	$ 30,580	$ 34,922
Work in process	22,199	19,767
Finished goods	155,326	150,264
	$208,105	$204,953

The excess of current costs over LIFO costs for certain inventories was $17 million at November 30, 1982 and $14 million at November 30, 1981.

Notes Payable to Banks

The following summarizes information concerning notes payable to banks (000's omitted):

	1982	1981	1980
Outstanding at November 30	$35,000	$35,000	$24,000
Maximum month end balance during the year	55,000	51,500	25,000
Average amount outstanding during the year	29,500	22,800	5,800
Weighted daily average interest rate during the year	12.8%	17.5%	12.2%
Weighted average interest rate on borrowings at November 30	9.8%	13.5%	17.5%

During 1982, the Company entered into revolving credit and term loan agreements totaling $45 million. The interest rate under these agreements is either the bank's prime rate, the Eurodollar rate plus ⅜%, fixed CD rate plus ½% or transaction loan rate, depending on the type of loan under the agreement. Additionally, the Company has agreed to pay certain other fees, including a commitment fee of ½% of the daily unused amount of the aggregate principal amount of the credit plus amounts borrowed at transaction loan rates. The Company has the option, to be exercised by November 1, 1986, to convert all or part of the revolving credit into term loan notes which would be repaid in quarterly instalments over a three year period commencing on conversion.

At November 30, 1982, borrowings were $35 million under the agreements, $17.5 million of which is classified as long term debt since that amount was subsequently replaced with the 8½% Convertible Debentures; the remaining $17.5 million was repaid from cash generated by operations.

At November 30, 1982, the Company's lines of credit were $9 million, all of which were unused and cancelled when the revolving credit and term loan agreements were completed. Average compensating balances on these lines, generally satisfied by "float", aggregated $.3 million.

Long Term Debt

At November 30, 1982 and 1981, long term debt, less current maturities, comprised the following (000's omitted):

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	1982	1981
Loans under bank credit agreements due through 1986	$17,500	$ —
8½% sinking fund debentures (due 1996)	22,489	22,611
9¼% promissory notes (due 1991)	22,200	23,600
Industrial revenue development bonds	13,405	13,164
Other debt, extending to 2003 (average interest rate of 8.4%)	1,484	1,560
Obligations under capital leases	1,184	1,308
15.3% subordinated notes	11,200	—
Total long term debt	$89,462	$62,246

The 8½% sinking fund debentures, originally $35 million, have been reduced by purchases which are being applied to sinking fund requirements of $1.75 million annually; $10.5 million was applied to 1978 through 1983, and $2.011 million is available for future use.

The 9¼% promissory notes, originally $25 million, require annual payments of $1.4 million on December 1, 1982 and 1983 and $2.6 million annually each December 1 thereafter. The Company may make optional prepayments up to $7.5 million without premium, in amounts equal to and at the dates of the required payments, and additional prepayments, subject to certain restrictions prior to November 1, 1985, of all or any portion of the notes at varying premiums.

The industrial development bonds revenue, which mature on varying dates from March, 1983 through January, 2003 were issued by development authorities for the purchase or construction of various manufacturing or retail facilities. The bond proceeds were used for various properties, which have a carrying value at November 30, 1982 of $16.3 million. Interest rates on the various borrowing agreements range from ⅞ of 1% to 9¼% (average of 7.3%) at November 30, 1982.

The 15.3% subordinated notes, issued in connection with the purchase of 755,764 shares of the Company's stock, were renegotiated from an original 16.9% rate. Five annual payments of $2.8 million are due beginning June 29, 1983; however, the Company may prepay without penalty.

Other long term debt includes instalment notes and mortgages with interest rates ranging from 3½% to 14% per annum. The approximate principal requirements of long term debt during the next five years, including payments on the 9¼% notes, various industrial revenue bonds and 15.3% subordinated notes, are as follows: $5.253 million in 1983; $4.639 million in 1984; $5.968 million in 1985; $5.969 million in 1986; $7.584 million in 1987.

Under the most restrictive provisions of the Company's borrowing agreements, the Company may incur total funded debt up to approximately the amount of shareholders' equity. At November 30, 1982 senior funded debt was limited to approximately $216 million. In addition, at November 30, 1982 consolidated working capital was $237 million compared to $149 million required to be maintained by the Company. Consolidated retained earnings of $58.5 million at November 30, 1982 plus 80% of earnings thereafter are available for the payment of future cash dividends.

Convertible Preferred Shares

Series A preferred shares are voting shares, each convertible into 1.8 common shares, and are cumulative with an annual $2 dividend rate. The shares are callable at a liquidation price of $67.50 each (an aggregate of $1.14 million at November 30, 1982) and 30,398 common shares are reserved for conversion. During 1982, 29,136 preferred shares were converted into 52,441 common shares.

Leases

The Company and its subsidiaries operate principally in leased facilities. Almost one-half of the leases contain renewal options ranging from 5 to 25 years. Over 90 percent of all leases provide for payment by the lessors of all or most of the applicable real estate taxes, maintenance and insurance costs; such executory costs are substantial in proportion to minimum rentals. Contingent rental payments are generally based on the sales volume of the rental unit.

Leased property under capital leases is included in "Properties" on the balance sheet and at November 30, 1982 and 1981 comprises the following (000's omitted):

	1982	1981
Land	$ 138	$ 138
Buildings	4,536	4,536
	4,674	4,674
Less: Accumulated depreciation	3,366	3,245
	$ 1,308	$ 1,429

At November 30, 1982, total minimum rentals under operating leases and rentals applicable to capital leases are as follows (000's omitted):

Years	Capital Leases	Operating Leases
1983	$ 379	$ 19,214
1984	379	18,633
1985	379	17,773
1986	379	16,893
1987	379	15,908
Thereafter	2,272	77,437
Total minimum due	4,167	$165,858
Executory costs	(1,972)	
Amounts representing interest	(887)	
Present value of minimum lease payments	1,308	
Current capital lease obligations	(124)	
Long term capital lease obligations	$ 1,184	

Minimum future sublease rentals receivable under capital leases and operating leases at November 30, 1982 amounted to $7.8 million and $3.4 million, respectively. Rental expense on operating leases, including rentals under short term leases, comprises the following (000's omitted):

	1982	1981	1980
Minimum rentals	$ 22,303	$ 20,177	$ 16,472
Contingent rentals	6,359	6,431	6,069
Sublease income	(1,630)	(1,377)	(1,122)
Total rental expense	$ 27,032	$ 25,231	$ 21,419

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Stock Option Plans

The Company has stock option plans under which officers and key employees may be granted options to purchase the Company's common stock at prices equal to the fair market value at date of grant. Options under all plans approved by the shareholders before 1980 are exercisable to the extent of 25% each year (cumulative) from the second through the fifth year, and expire five to ten years after date of grant. Options under the 1980 and 1982 Stock Option Plans may be exercisable as to all or any portion of the shares granted at any time during the period beginning one year after the date of grant, if the participant has been employed by the Company for at least five years, and expire on April 7, 1990 and April 14, 1992, respectively.

The 1980 and 1982 Plans also provide for the discretionary grant of stock appreciation rights in conjunction with the option. This allows the holder to receive a combination of shares of stock and a cash payment, which together equal the gain in market price from date of grant to the date of exercise. However, the maximum cash payment permitted is one-half of the gain in market price. Under the Plans, when options and appreciation rights are granted in tandem, the exercise of one cancels the other.

Options outstanding at November 30, 1982 included 105,850 granted in tandem with stock appreciation rights. Options for 154,176 shares were exercisable at November 30, 1982 at prices ranging from $9.75 to $22.07. At November 30, 1982, 246,525 shares were available for grant (83,575 shares at November 30, 1981) and 530,426 shares were reserved for options granted or to be granted.

Information regarding options outstanding at November 30, 1982 and those which became exercisable and were exercised during 1982, 1981, and 1980 is as follows:

Options Outstanding at November 30, 1982

Year of grant	1982	1981	1980	1979	1978	1977	1976	1975	Total
Shares	87,950	107,389	61,025	250	20,912	2,000	2,000	2,375	283,901
Option price (weighted average per share)	$21.44	$ 18.21	$10.13	$12.07	$12.32	$13.63	$13.57	$9.75	$ 17.84
Fair value at date of grant (000's omitted)	$2,150	$ 1,959	$ 618	$ 3	$ 258	$ 27	$ 27	$ 23	$ 5,065

		Option price		Fair value at date options became exercisable/were exercised	
Options which became exercisable:	Shares	Per share	Total (000's omitted)	Per share	Total (000's omitted)
1982	98,927	$17.75	$1,756	$23.74	$2,349
1981	109,202	$10.98	$1,200	$18.00	$1,966
1980	49,533	$13.04	$ 646	$11.18	$ 554
Options exercised:					
1982	45,682	$13.25	$ 605	$25.91	$1,184
1981	156,099	$12.98	$2,027	$19.28	$3,010
1980	67,625	$ 9.73	$ 657	$12.48	$ 844

A summary of the plans for the three years ended November 30, 1982 is as follows:

	Number of		Option Price
	Shares	Appreciation Rights	
Under option, November 30, 1979	281,858		$6 to $14
Granted	87,700	30,850	$10
Exercised	(67,625)		$6 to $12
Expired or terminated	(11,675)		$8 to $14
Under option, November 30, 1980	290,258	30,850	$10 to $14
Granted	119,100	41,250	$14 to $22
Exercised	(156,099)	(1,650)	$10 to $14
Expired or terminated	(10,225)	(500)	$10 to $14
Under option, November 30, 1981	243,034	69,950	$10 to $22
Granted	88,350	38,950	$24 to $31
Exercised	(45,682)	(3,050)	$10 to $20
Expired or terminated	(1,801)		$10 to $24
Under option, November 30, 1982	283,901	105,850	$10 to $31

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Pension Plans

The Company participates with other companies in the apparel industry in making collectively-bargained contributions to pension funds covering most of its union employees. The 1982 contribution rate for the principal plan was 8.3% of the applicable payroll and is based on the actuarially recommended amount necessary to fund the costs of the benefits.

The principal Company-sponsored plan has required contributions by the employees, and another plan permits voluntary employee contributions. Beginning January 1, 1982 the mandatory contributions by employees are being gradually reduced. By January 1, 1984 the principal Company plan will be non-contributory. Except for several deferred profit sharing plans of subsidiaries, all employer contributions are based on actuarial determinations.

Total pension costs for the years ended November 30, 1982, 1981 and 1980 were approximately $12 million, $12 million and $11 million, respectively, including contributions to multi-employer plans. The increase in pension costs in 1981 primarily reflects the addition of costs for Country Miss, partly offset by decreased costs for Company-sponsored plans due to revised actuarial assumptions as to interest and future salaries.

A comparison of accumulated plan benefits and plan net assets for the Company-sponsored defined benefit plans at January 1, 1982 and 1981 is presented below (000's omitted):

	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	$30,000	$27,000
Nonvested	2,500	2,000
	$32,500	$29,000
Net assets available for benefits	$48,500	$47,700

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6½% in both years.

The Multi-employer Pension Plan Amendments Act of 1980 amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal from or termination of such plans. Separate actuarial calculations of the Company's position are not available with respect to the multi-employer plans.

Taxes on Earnings

The provision for taxes on earnings is summarized as follows (000's omitted):

	1982	1981	1980
Federal	$ 16,610	$ 18,298	$ 15,900
State and local	3,135	3,560	2,615
Total current	19,745	21,858	18,515
Federal	4,415	1,260	1,050
State and local	830	245	170
Total deferred	5,245	1,505	1,220
Total taxes on earnings	$ 24,990	$ 23,363	$ 19,735

The deferred tax provision for 1982 is primarily comprised of $3.4 million attributable to deferred gross margin on instalment sales and $2.9 million attributable to accelerated depreciation. The individual items comprising the deferred tax provision in 1981 and 1980 were not material.

The difference between taxes on earnings reflected in the accompanying statement of earnings and the amount computed by applying the federal statutory tax rate to pre-tax earnings is summarized as follows:

	Percent of Pre-Tax Earnings		
	1982	1981	1980
Taxes computed at statutory rate	46.0%	46.0%	46.0%
State and local taxes on earnings, net of federal tax benefit	3.8	4.1	3.6
Investment tax credit ($1.516 million in 1982, $1.27 million in 1981 and $.85 million in 1980)	(2.7)	(2.5)	(2.0)
Gain on sale of property, taxed at capital gain rates	(2.0)	—	—
Equity in earnings of non-consolidated affiliate	(1.5)	(1.8)	(1.4)
Other—net	.4	.2	.5
Effective tax rate	44.0%	46.0%	46.7%

During 1982, the Company purchased tax benefits through tax lease transactions for $2.853 million. As deferred taxes were recorded for the benefits recognized, the effect on after-tax earnings was not significant. In December 1982, the Company entered into additional tax leases for an aggregate purchase price of $6.036 million.

Operating Segment Information

The Company is engaged in the business of manufacturing and selling apparel. Approximately 17% of the Company's manufactured products are sold to consumers through its own retail stores, which also sell goods purchased from others. The remaining 83% are sold to other retailers for resale to consumers. No one customer accounts for more than 2% of consolidated sales. Country Miss was acquired in 1981 and its manufacturing and retailing operations are included in the 1982 and 1981 segment information. Information on the Company's manufacturing and retailing operations for the years ended November 30, 1982, 1981 and 1980 is summarized as follows (in millions):

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Operating Segment Information

	Manufacturing			Retailing			Adjustments			Consolidated		
	1982	1981	1980	1982	1981	1980	1982	1981	1980	1982	1981	1980
Sales to unaffiliated customers	$407.2	$373.8	$271.2	$456.0	$441.8	$403.7	$	$	$	$863.2	$815.6	$674.9
Earnings before taxes	57.1	45.7	30.3	20.5	23.9	23.2	(20.7)	(18.8)	(11.2)	56.9	50.8	42.3
Gross assets at year end	251.9	240.5	196.8	230.5	230.6	203.6	(1.6)	(6.2)	1.8	480.8	464.9	402.2
Depreciation and amortization	5.3	4.3	3.7	8.5	7.5	6.0	.2	.1		14.0	11.9	9.7
Property additions—net	6.2	14.2	2.8	6.6	16.6	11.9		1.2		12.8	32.0	14.7

Adjustments of gross assets are for corporate cash, net properties, investments and other assets, less intercompany profit in inventory and intercompany receivables.

Adjustments of depreciation and amortization and net property additions are for the corporate space in the new headquarters building.

Shipments of approximately $83 million in 1982, $76 million in 1981 and $62 million in 1980 to the Company's retail stores (at the same prices as similar items sold to unaffiliated retailers) are excluded from manufacturing sales, although profit on these products is included in manufacturing earnings. Adjustments from earnings before taxes are for:

	1982	1981	1980
Interest expense (net of interest income)	$ (8.9)	$ (7.5)	$ (2.5)
General corporate expenses and intercompany profit elimination (includes gain on sale of building in 1982)	(13.7)	(13.3)	(10.0)
Equity in earnings of non-consolidated affiliate	1.9	2.0	1.3
	$(20.7)	$(18.8)	$(11.2)

Effects of Inflation (unaudited)

Financial statements presented in accordance with generally accepted accounting principles traditionally report amounts based on historical costs, without attempting to measure the effects of changing prices on business enterprises. Financial Accounting Standards Board Statement 33, "Financial Reporting and Changing Prices," requires presentation of supplemental financial data adjusted for both general price level changes (Constant Dollar) and changes in specific prices (Current Cost). This is deemed experimental and data should be read with caution.

Both Current Cost and Constant Dollar accounting use the same depreciation rates and methods used in the financial statements, after adjustments for inflation since the dates of purchase. Both methods state amounts in average dollars of purchasing power for the last fiscal year; neither method recognizes "holding gains" from the increased values of properties. Current Cost of year-end inventories was determined using the FIFO method. Since the Company uses the LIFO inventory method for a substantial portion of its inventory, historical cost of goods sold approximates that determined under Current Cost.

Current Cost of properties and related depreciation were developed using appropriate indices, appraisals and management estimates of the cost of replacing existing properties with identical units. This concept disregards replacement with more productive equipment. Historical depreciation is significantly less than inflation-adjusted depreciation even though over 60% of the properties' book value was added in the last five years.

The gain in the purchasing power of monetary items results from the difference between the net liability when incurred, and when expressed in today's dollars which have less purchasing power, but this represents neither a realized gain nor available funds.

The data also show that Current Cost of inventory and property (principally property) increased in 1982 at a rate higher than general inflation. Inflation adjustments to cost of goods sold and depreciation reduce earnings before tax, but no adjustment to taxes on earnings is permitted. This raises the 44% historical effective tax rate to 66% on a Constant Dollar basis and 54% under Current Cost, showing how taxes reduce the amount of earnings retainable to finance future growth.

The five year Comparison of Inflation-Adjusted Financial Data is expressed in average 1982 dollars. Inflation-adjusted earnings are shown to be notably lower than earnings on a historical basis, while 1982 historical net asset costs of $242.5 million would be $322.9 million at Current Costs.

Inflation accounting requires the use of the Consumer Price Index for All Urban Consumers-All Items (CPI-U All Items) as the measure of general inflation. However, the Company believes the CPI-U apparel indices represent a better measure of inflation in its product costs and sales prices; these indices increased 3.7% for men's and 1.1% for women's apparel in fiscal 1982, when the CPI-U All Items increased 6.6%. Sales showed a five-year annual compounded growth rate of 5.5%, using the apparel indices, or approximately 9.2% annual growth on a historical basis.

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Statement of Income Adjusted for Changing Prices (unaudited)

In Average 1982 Dollars/In Millions

	As Reported in the Financial Statements	Adjusted for Constant Dollars	Adjusted for Current Costs
Net sales	$863.2	$863.2	$863.2
Operating expenses, excluding depreciation:			
Cost of goods sold	529.1	537.0	532.1
Selling, administrative and occupancy expenses	268.7	268.7	268.7
Depreciation expense	13.9	25.0	21.2
Interest expense	10.2	10.2	10.2
Interest income, other income and equity in earnings of affiliate	(15.6)	(15.6)	(15.6)
	806.3	825.3	816.6
Earnings before taxes	56.9	37.9	46.6
Taxes on earnings	25.0	25.0	25.0
Net earnings for the year	$ 31.9	$ 12.9	$ 21.6
Effective tax rate	44%	66%	54%
Gain in purchasing power of net monetary liabilities		$ 2.8	$ 2.8
Increase in general price level			$ 17.2
Effect of increase in specific prices (current costs) on inventories and properties held during the year			5.3
Excess of increase in general price level over the increase in specific prices of inventories and properties			$ 11.9

At November 30, 1982, the current cost of Inventories and Properties was $225.2 million and $155.5 million, respectively.

Comparison of Inflation-Adjusted Financial Data (unaudited)

Amounts Stated in Millions except Per Share Amounts

	1982	1981	1980	1979	1978
Net sales:					
As reported	$863.2	$815.6	$674.9	$630.8	$606.6
In constant dollars	863.2	869.3	795.9	844.8	901.1
Net earnings:					
As reported	31.9	27.4	22.5	21.0	18.0
In constant dollars	12.9	6.4	2.1		
In current costs	21.6	15.9	12.8		
Net earnings per share:					
As reported	3.77	3.16	2.63	2.45	2.09
In constant dollars	1.52	.74	.24		
In current costs	2.56	1.84	1.50		
Net assets at year end:					
As reported	242.5	245.5	226.8	212.6	199.5
In constant dollars	363.5	378.4	364.0		
In current costs	322.9	346.2	331.1		
Cash dividends per common share:					
At historical cost	1.21	1.09	.97	.88	.80
In constant dollars	1.21	1.16	1.14	1.18	1.19
Market price per common share at year end:					
At historical cost	37½	21¼	14	11¾	10⅝
In constant dollars	37½	22⅛	16½	15¾	15¾
Increase in general price level over (under) increase in specific prices of inventories and properties	11.9	(1.5)	23.3		
Purchasing power gain	2.8	4.5	4.0		
Average Consumer Price Index	288.2	270.4	244.4	215.2	194.0

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